Tax Supported
New Issue

San Antonio, Texas

Ratings

New Issue

General Improvement Refunding Bonds, Series 2003 .... AA+

Outstanding Debt

General Obligation.............................. AA+
Certificates of Obligation.................... AA+

Analysts

Jose A. Hernandez
1 512 322-5317
jose.hernandez@fitchratings.com

Jose L. Acosta
1 512 322-5324
jose.acosta@fitchratings.com

Issuer Contact

Milo Nitschke
Finance Director
1 210 207-8621
milon@ci.sat.tx.us

New Issue Details

$25,885,000 General Improvement Refunding Bonds, Series 2003, are scheduled to sell via negotiation on March 18 to a syndicate managed by Ramirez & Co. Dated May 1, 2003, the bonds will mature Aug. 1, 2004–2010. The bonds will not be subject to optional redemption prior to maturity.

Security: The bonds are payable from a limited ad valorem tax levied upon taxable property within the city, subject to a $2.50 per $100 assessed valuation limitation.

Purpose: Bond proceeds will be used to refund certain obligations for debt service savings.

■ Outlook

The 'AA+' rating reflects San Antonio's (the city) favorable economic activity and diversification, solid financial practices and adequate recent results, and well managed direct debt position. The three primary sectors of the local economy are medical and health care, the military, and tourism. San Antonio has proactively addressed base realignment concerns through the ongoing redevelopment of one site and innovative measures to diminish the risk of further base closures. Despite the recent economic downturn, the city aggressively and successfully marketed itself as a tourist destination for those within driving distance and short haul air traffic. Recent economic news has been a mix in the manufacturing sector, with auto manufacturing set to initiate within three years, yet softness in the semiconductor industry causing some job losses.

From a revenue standpoint, city finances have not escaped the prevailing economic environment of the past year unscathed. Lower sales tax receipts and a reduced transfer from the city-owned electric utility required expenditure cuts in the last quarter of fiscal 2002 and significant adjustments in the budget for fiscal 2003. Financial reserves developed in prior years were sufficient to offset the unrealized revenues in fiscal 2002 and although sales taxes are off again, other revenue sources are higher than budget, which is expected to result in no change in fund balance for fiscal 2003. Also, preliminary projections for fiscal 2004 expect substantial budgetary stress, however not as drastic as experienced in developing the fiscal 2003 budget. The direct debt burden of the city is moderate, and borrowing for future needs is expected to be manageable. Due to the continued economic growth, albeit at a slower pace, and the expectation that management and leadership will take action necessary to maintain and restore financial reserves, the Rating Outlook for this credit is Stable.

■ Rating Considerations

San Antonio is the third largest city in the state and ninth largest in the U.S., according to census information, with an estimated population of 1,251,200 for 2000. The city is located in the south central area of the state, approximately 150 miles north, as well as east, of the border with Mexico and 75 miles south of the state capital of Austin. Prominent industries in the local economy are domestic and international trade, convention and tourism, military and government employment, medical and health care, financial, and telecommunications. Its proximity to Mexico and cultural similarities provide a favorable environment for international business relationships.

March 17, 2003

Recent economic news is focused on the manufacturing sector, highlighted by a recent announcement by Toyota Motor Manufacturing of San Antonio being selected as its next production facility site in North America. The impact of this project, including peripheral supply and sales activity, will propel manufacturing into a prominent position as a component of the local economy. Toyota's commitment of an initial $400 million facility that will employ 1,800, as well as 2,100 during construction, will serve as a catalyst for development in the southern area of the city. However, the slump in semiconductor demand has led to the closure of one plant, employing 520, and has placed the future of at least one other local plant in question.

Fiscal 2002 financial results are expected to show a substantial depletion of general fund balance reserves and essentially no revenue growth. However, to meet the service demands of a growing area, rising expenditures are also being experienced, especially in the area of public safety. The fiscal 2003 budget maintains the property tax rate at essentially the same level as the prior seven years and despite sales taxes performing about 3% below budget year-to-date, higher revenues from property taxes and transfers from the electric and gas utility lead city officials to project positive operating results throughout this fiscal year. However, fiscal 2004 poses another year of fiscal duress, with an anticipated general fund shortfall of $36 million. City staff and leadership will initially address the future shortfall in April of this year, with further action expected during the financial forecast and budgeting cycles later this summer.

Growth in taxable assessed value for fiscal 2003 is 3.1%, which is a fairly steep drop from the 9.9% increase in fiscal 2002, although the majority of the growth is in the form of new improvements. Assessed valuation growth for fiscal 2003 was likely affected by the unusually high level of taxpayer protests. In fiscal 2002, residential building permits issued exceed fiscal 2001 levels by approximately 20%. For fiscal 2003, residential building permits are off the levels posted in fiscal 2002, however year-to-date levels are higher than fiscal 2001 levels. The direct debt burden of the city is moderate, and annual general obligation bond and certificate of obligation issuance is expected to support its capital program through fiscal 2004. However, new general obligation authority will be needed to continue the capital program as the city has no authorized but unissued debt remaining. A positive factor is the debt service portion of the tax rate is not expected to require significant adjustment to accommodate future borrowing.

■ Strengths

- Continued overall economic growth and diversification.
- Competent administrative staff and fiscal stewardship.
- Moderate and well managed direct debt position with affordable future borrowing plans.

■ Risks

- Service delivery pressures and spending requirements in a currently revenue-constrained environment.
- Uncertain long-term ability of city-owned electric utility to continue payments to general fund due to industry deregulation.
- Challenge of securing long-term water supplies, although a funding mechanism and acquisition plan is now in place and under way.

San Antonio (City of) TX

San Antonio, Texas

Ratings & Contacts

Category	Moody's Rating
General Obligation – Limited Tax	Aa2
General Obligation – Commercial Paper	P-1
International Airport Revenue	A1
San Antonio Water System	
Senior Lien Revenue	Aa3
Junior Lien Revenue	A1
Commercial Paper	P-1
City Public Service	
Senior Lien Revenue	Aa1
Commercial Paper	P-1
FP: RatingsContacts-InfoIndented	Aa2.mx

Analyst	Phone
Kristin Button/Dallas	1.214.220.4383
Douglas Benton/Dallas	1.214.220.4381
Dan Aschenbach/New York	1.212.553.0880

Details of Bond Sale

Sale Amount:	$107,350,000	General Improvement and Refunding Bonds, Series 2002
Sale Amount:	$73,650,000	Combination Tax and Revenue Certificates of Obligation, Series 2002
Sale Amount:	$24,265,000	General Improvement Forward Refunding Bonds, Series 2003

Expected Pricing Date: 11/18/2002
Security: General Obligation
Use of Proceeds: Improvements throughout the City and Refunding of certain Outstanding Debt

Key Issuer Contacts	Phone
Terry Brechtel, City Manager	210-207-7080
Milo Nitschke, Finance Director	210-207-8621

Key Indicators

San Antonio (City of) TX

Key Indicators	2002	1993
Population	1,232,500	935,933
Full valuation (000)	40,805,635	21,950,835
Full value per capita	$29,236	$23,453
Direct debt burden	2.9%	2.8%
Overall debt burden	6.6%	5.3%
Payout (10 years)	67.4%	46.5%
Unemployment	5.6%	6.1%
General Fund balance (000)	$96.1	$41.6
Undesignated General Fund balance (000)	$50.4	$36.6
Undesignated as % of General Fund revenues	9.10%	9.00%
Property tax as % of operating revenues	19.30%	30.80%
Sales tax as % of operating revenues	21.00%	19.30%
Transfer from CPS as % of operating revenues	28.80%	29.90%
Debt Service as % of operating expenditures	14.10%	14.70%

Opinion

Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to the City of San Antonio's $181 million 2002 Obligations consisting of $107.35 million General Improvement and Refunding Bonds, Series 2002 and $73.65 million Combination Tax and Revenue Certificates of Obligation, Series 2002. Moody's has also assigned a Aa2 rating to the City's General Improvement Forward Refunding Bonds, Series 2003. At the same time, Moody's has affirmed the Aa2 rating on the city's outstanding general obligation limited tax debt, which totals $838 million. The rating reflects the robust expansion and diversification in the city's economy, strong financial position and a manageable debt profile characterized by an above average debt burden mitigated by an above average rate of retirement. The rating also incorporates management's proactive approach to challenges posed by the closure of Kelly Air Force Base and potential vulnerabilities inherent in an economy that has some reliance on tourism.

The San Antonio metropolitan area is experiencing an economic resurgence. Continued moderate growth on the City of San Antonio's $40 billion taxbase, which has averaged 6.8% growth annually for the last five years, is expected to continue for the foreseeable future. In the midst of an economic resurgence, ongoing management efforts are expected to lead to diversification into the industrial, transportation, and warehousing sectors to combine with the current growth in the technology and medical care sectors. While the tourism, commercial, and military sectors remain important to the economy, diversification is expected to lessen the reliance on these traditional economic drivers.

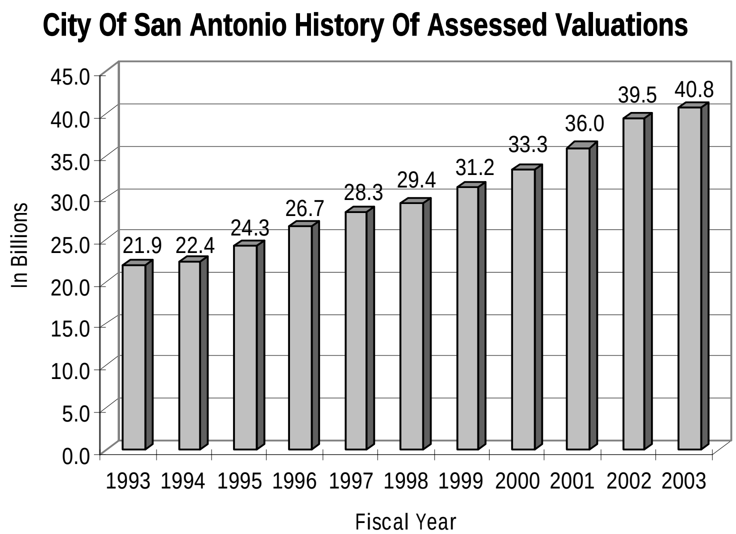
The City has a high yet manageable direct debt burden at 2.9%. The overlapping debt of the City is primarily from school districts, which receive significant State funding that is considered in deriving the overall debt burden of 6.6%. The city's existing payout structure is rapid with 67.4% of principal repaid in 10 years and all debt repaid in 20 years. Moody's believes that this rapid debt retirement should mitigate anticipated future debt issuance and allow the debt burden to remain manageable.

Finances remain favorable although a decrease on the fund balance is expected for the 2002 fiscal year-end. The General Fund balance of $96.1 million for 2001 equals 17.7% of General Fund revenues. The undesignated portion of this fund balance is $49.4 million, or 15.9% of General Fund revenues. In fiscal 2002, the General Fund balance is expected to decrease to $62.9 million with $19.6 million as undesignated. Primary revenue sources include property tax (19.3%), transfers from City Public Service (28.8%) and sales taxes (21%). The transfer from the city's electric and gas system (revenue bonds rated Aa1 by Moody's) is expected to remain an important source of revenue in the future. However, Moody's believes that the system is well positioned to meet the challenges of deregulation and the current level of transfers has not restricted the utility's cost competitiveness. Additionally, this revenue source has declined moderately as a percent of city revenues.

GROWING AND DIVERSIFYING ECONOMIC BASE CONTINUES WITH REDEVELOPMENT AND NEW CONSTRUCTION

San Antonio serves as an important regional economic center for Bexar County and its surrounding areas. Tourism and a strong military presence continue to be an important factor in the vitality of the City, and San Antonio has begun to diversify its base with industries such as health care, biomedical, financial, aerospace, and technology.

The City of San Antonio has realized tremendous growth over the last decade as demonstrated by the population, which was 935,933 in the 1990 Census and grew 22% to 1,144,646 in the 2000 census. San Antonio is the eighth largest City in the United States and the second largest in Texas. The City's taxable value is sizable exceeding $40 billion for the 2003 fiscal year. Over the last ten years, between fiscal years 1992 and 2002, the tax base has grown an average of 6.4% annually. The total increased value of $17 billion is derived 26% from base value growth, 52.5% from new improvements, and 21.4% from annexations.



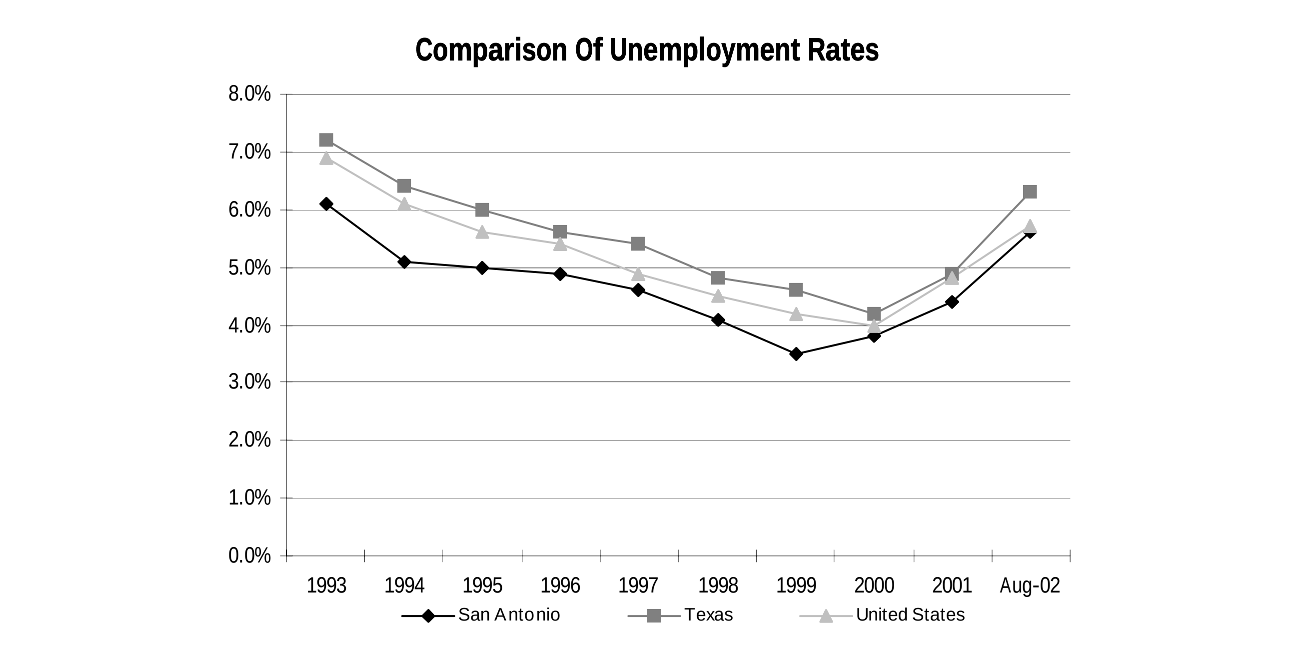
With the closing of Kelly Air Force Base, on July 13, 2001, the City of San Antonio began an aggressive plan to redevelop the base into an industrial and business park, KellyUSA, by creating the Greater Kelly Redevelopment Authority (GKDA). The vision for KellyUSA is to: (1) facilitate the establishment of an Inland Port San Antonio; (2) become the gateway to Central and South American businesses; (3) create an aviation overhaul and repair Center of Excellence; and (4) become a manufacturing center for San Antonio. The Greater Kelly Development Authority (GKDA) has a joint use agreement with the Air Force for use of the Kelly runway for commercial aviation operations, such as air cargo.

There are nearly 6,000 people employed at Kelly USA with the presence of major industry players such as Boeing, Lockheed Martin, EG&G, Pratt & Whitney, Standard Aero and Chromalloy. The successful redevelopment at KellyUSA is supported by its location on two major highways I-30 and I-35. Continued development is expected bringing further diversity to the economy.

Brooks City-Base is another private/public partnership being explored by the City of San Antonio to make further use of property available at Brooks Air Force Base (AFB). Fort Sam Houston and Randolph AFB continue to operate as military installations supporting the San Antonio economy.

Annexation in the City allows the taxbase to grow and to obtain additional economic development opportunities. The City is currently planning to annex an area of more than 50 square miles South of the city referred to as the Southside Initiative. A large auto manufacturer is considering San Antonio for a new plant site which would be located in the heart of the Southside Initiative. Should the manufacturing plant come to fruition, it is estimated that approximately 4,000 direct jobs will be created and approximately 14,000 indirect jobs will be created from support operations.

Although unemployment rates have been increasing the last two years, the following graph shows that San Antonio is following State and National trends. With an August, 2002 unemployment rate of 5.6%, the City of San Antonio compares favorably to 6.3% at the State level and 5.7% at the National level.

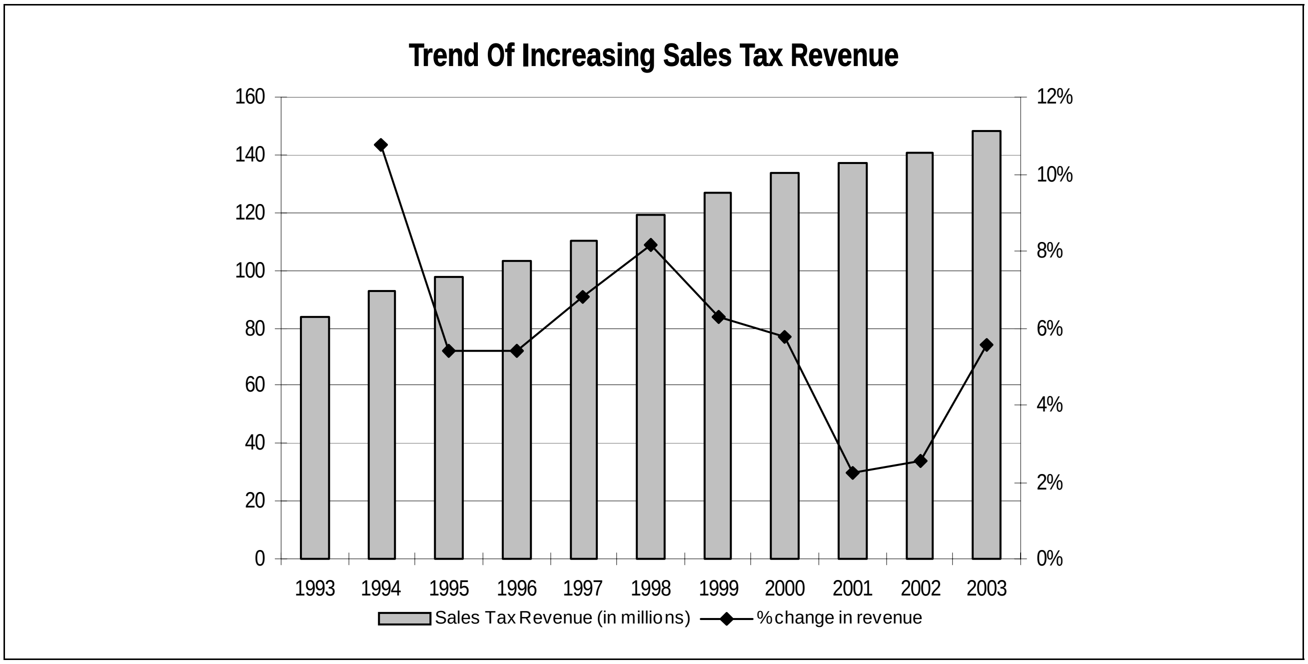


Wealth levels in the City are below that of the State but exceed the State's growth between the 1990 Census and the 2000 Census. Between 1990 and 2000, the City's per capita income grew 61% from $10,884 to $17,487 while the State grew 52% from $12,904 to $19,617. San Antonio's growth rate on per capita income also exceeds the United States which grew 46% from 1990 to 2000.

TOURISM REALIZING SLOW RECOVERY AFTER SEPTEMBER 11TH

Immediately after September 11th, the City of San Antonio lost two conventions that were previously booked at the new Convention Center. In fiscal 2001, San Antonio had the lowest number of convention room nights since the 1992 fiscal year. Fiscal 2001 had 874,509 room nights compared to 943,181 in fiscal 2000. Fiscal 2002 should reach the largest number in the last ten years with 1,026,938 while fiscal 2003 is projected to be a low 849,987. The City has taken measures to promote San Antonio and earmarked $2 million in funding for advertising through the Convention and Visitors Bureau which it hopes will further improve the local tourism industry.

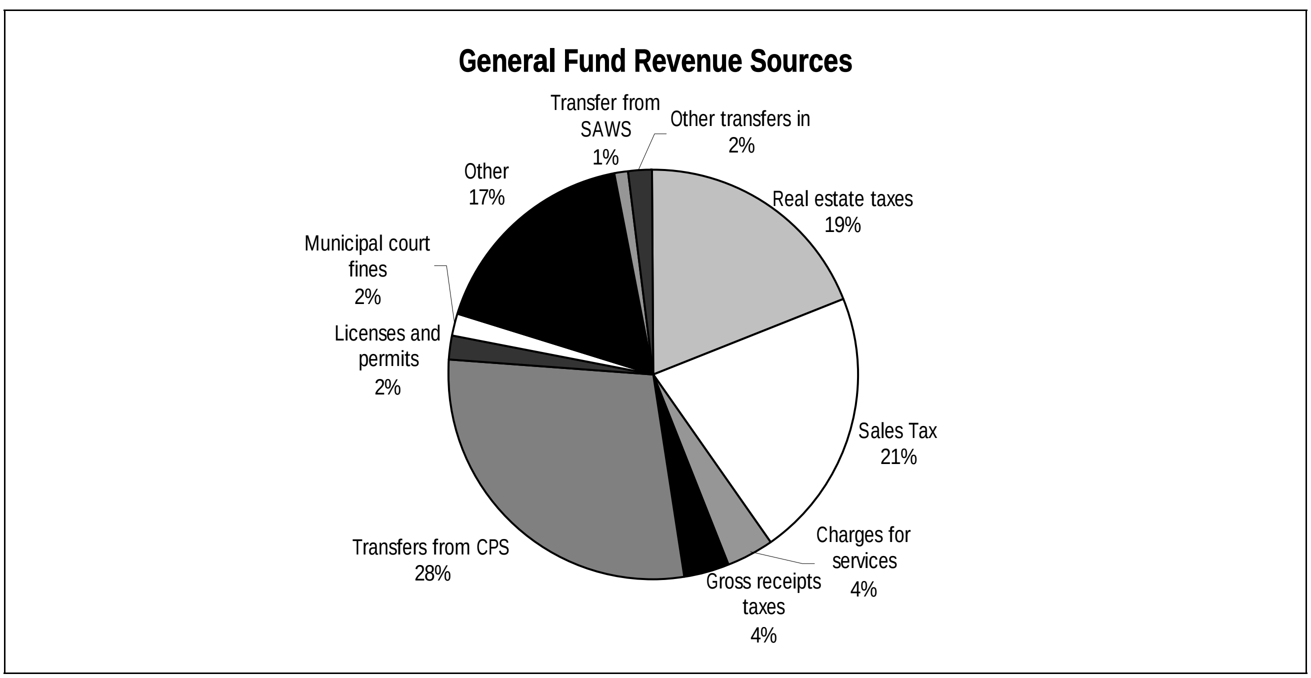
Hotel/Motel tax receipts are budgeted to increase to $37.2 million after decreasing to $35 million in fiscal 2002. The $800,000 decrease was the first decrease in this revenue source over the last ten years reflecting the solid tourism industry in San Antonio until recently. Sales tax revenues increased for the City, although the increase fell short by $1.9 million of the budgeted amount. Since at least 1992, sales tax revenues have increased annually averaging a 6% increase over the last ten years and a 4.5% increase over the last five years.



Although growth has slowed somewhat over the last two fiscal years, to 2% and 3% annually, local economists are optimistic that growth will continue at more historical rates of 6% annually starting in the 2003 fiscal year.

BALANCED BUDGET FOR FISCAL 2003 ACCOMPLISHED

At the end of fiscal 2002, the City was projecting a $42.4 million shortfall in the General Fund. This represents about 7% of the General Fund's $563 million in revenues for fiscal 2002. The shortfall was the result of lower than anticipated revenues and higher than expected expenditures. The General Fund's primary revenue sources are property tax, sales tax, and City Public Service. In fiscal 2001, 19.3% of operating revenues came from property tax, 21.0% from sales tax and 28.8% from City Public Service. Property taxes were expected to increase by 4.15%, but an actual increase of 2.9% was realized causing a $1.9 million difference. Sales tax revenues also fell short by $1.9 million from a budgeted $143.9 million to a projected $142 million.



The transfer from the City Public Service (CPS) Fund to the General Fund was also less than anticipated. Revenue from CPS to the General Fund is based on 14% of all gas and electric customer revenue. This revenue is not a stable revenue stream as it depends on factors such as weather, price volatility of fuel sources and availability of fuel supply. Moody's rates CPS a Aa1 (for more information regarding CPS, please refer to Moody's Municipal Credit Research dated August 3, 2002). Fiscal 2001 experienced an unusually high amount of revenue due to a cold winter and high fuel prices. City officials considered this anomaly for the fiscal 2002 budget using a budgeted amount that was $5.9 million less than the 2001 actual. Even with this conservative estimate, the revenue still came in $2.5 million under budget due to a mild winter and lower fuel prices. For fiscal 2003, the CPS transfer is $168.9 million which is a 3.4% increase over the 2002 re-estimate and 1.9% above the 2002 budget. Officials believe that projections for a cold winter and improved fuel prices will allow the revenue source to at least meet its budgeted amount.

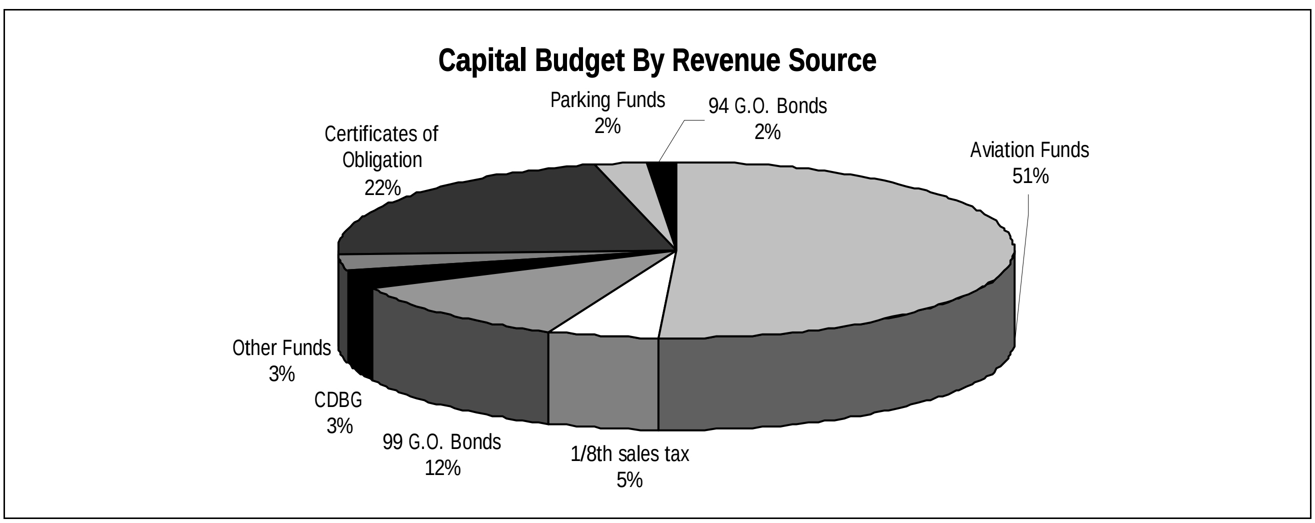
The City was able to balance its budget for the 2003 fiscal year without increasing the tax rate for the tenth straight year. The total tax rate will remain at $5.784 per $1,000 assessed valuation. The budget includes shifting the O&M tax rate from $3.54 to $3.62 and the debt service tax rate from $2.24 to $2.16 allowing the General Fund to collect more in property tax revenue for operating purposes. The debt service fund will continue to remain adequate for retiring debt service.

The 2002 fiscal year is also expected to adversely affect the fund balance. Unaudited results indicate the fund balance will decrease to $62.9 million which is closer to 1997 and prior fiscal year levels. In fiscal years 2000 and 2001, the fund balance was over $93 million. The unaudited FY2002 figure still includes $23.2 million reserved for revenue loss which is consistent with the amount reserved in 2001.

Expenditure cuts in all areas were also used to balance the 2003 budget including the elimination of positions and redirection of expenditures. Tighter expenditure controls during 2002 also decreased the projected shortfall for the fiscal year-end. The measures taken by management to mitigate fiscal challenges during fiscal 2002 and to balance the budget for fiscal 2003 support Moody's belief that management follows prudent fiscal management and will continue this practice in the future.

CONTINUED DEBT EXPECTED WHILE MAINTAINING MODEST DEBT PROFILE

San Antonio annually updates a six-year capital improvement program to identify capital needs and funding sources. The most recent program (FY2003 - FY2008) encompasses $696 million of which $353 million is for air transportation projects and $60.2 million is for park development and expansion projects. Bonds, grants and other revenue sources will fund these capital improvements. For example, park development is funded through a temporary 1/8 of a cent sales tax authorized by voters in May 2000. In fiscal year 2003, the capital improvement budget includes $325.8 million for continued construction of projects identified in the 1999 bond program, implementation of an Enterprise Resource Management System, and $9.4 million in branch library and literacy center improvements. The graph below shows the revenue sources supporting the capital budget over the next six years.



City officials plan to take a $115 million bond package to voters in May of 2003 for various City improvements. If the bond authorization is approved, Moody's believes the City can layer in the debt without adversely affecting the debt burden given current tax base growth and debt amortization schedules. The direct debt burden of 2.9% and overall debt burden of 6.6% are high but manageable and the future debt plans for San Antonio continue to remain manageable and reasonable for a growing City with continued capital needs.

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Author	Production Associates
Kristin Button	*John Tzanos* *Tiffany Lam*

STANDARD & POOR'S
PUBLIC FINANCE

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San Antonio, Texas, General Obligation Improvement Refunding Bonds, Series 2003

Credit Analysts: Jeanie Yarbrough, Dallas (1) 214-871-1420; James Breeding, Dallas (1) 214-871-1407

Credit Profile
$25.885 mil GO Imp Rfdg Bnds

Series 2003 dtd 04/01/2003
due 08/01/2010
AA+
Sale date: 18-MAR-2003

AFFIRMED
$928.888 mil Go Bnds
Various Series
AA+

OUTLOOK:
STABLE

Rationale

The 'AA+' rating on San Antonio, Texas' bonds is based on the full faith and credit of the city and also reflects:

- Continued strong economy despite slowing tax base growth for fiscal 2003,
- Strong management with good, long-term planning,
- Historically good financial management and position despite a significant reduction in the general fund balance for fiscal 2002, and
- A moderately high debt burden with manageable capital needs.

In February 2003, the city was chosen as the site for a new Toyota truck manufacturing facility. Construction is scheduled to begin during the summer of 2003, with completion in 2006. The city's economy will benefit at the onset of construction with an expected 2,100 construction jobs and total capital investment of about $800 million from Toyota.

Of some long-term concern is alleged improprieties by certain members of the city council. Though city management has indicated that the currently ongoing investigations relating to the indictments are not affecting the operations of the city, Standard & Poor's is concerned that operations and public support could be negatively affected.

Located in Bexar County about 75 miles south of Austin, the San Antonio MSA population of 1.3 million makes it in one of the 10 largest cities in the nation. Overall economic growth continues despite 2003 total assessed value (AV) growth slowing to 3.1% from the 7% average of the previous five years. Total AV is now almost $41 billion. The strongest growth continues to be in the services and trade sectors. The medical and bio-medical industries now comprise the largest part of the city's economy, contributing $8.1 billion to the area as a whole. Expansions continue at South Texas Medical Center, which is the city's largest employer, employing almost 26,000. Government, specifically the military, remains a large component of the economy with five military bases located in the city. Kelly Air Force Base (AFB) officially closed as a military installation in July 2001, but the city continues to work on its privatization efforts there, which have so far resulted in a slight net gain of jobs. The city also worked with Brooks AFB to create Brooks City-Base, which is a collaborative effort between the city and the U.S. Air Force established to retain jobs at Brooks by improving the effectiveness of the facility. Unemployment in San Antonio has risen to 5.6%, however, remains below state and national levels.

Financial performance suffered in fiscal 2002 with an unaudited, unreserved general fund balance of $53.5 million or 9.1% of expenditures. The reduction in the general fund balance is the result of nearly flat revenues due to the slowing tax base growth, coupled with reduced sales tax receipts and significantly increased expenditures, primarily for public safety. As a result, the unreserved general fund balance at fiscal year-end 2002 was reduced by $33.2 million. The city continues to exceed its goal of maintaining at least 5% of expenditures in the fund, and additional flexibility is provided with $23 million in reserves within the general fund that are dedicated only for potential revenue declines. These reserve funds did not decline during fiscal 2002. The city's 2003 budget process resulted in a budget shortfall of $42.4 million. In order to balance the budget, city management has implemented across-the-board departmental cuts that are primarily administrative. City management expects services provided by the city to be minimally affected. It further expects the total general fund balance for fiscal 2003 to be maintained at a level similar to what it was in 2002 given the adjustments made to balance the budget. The city's sales tax revenue for fiscal 2002 was below the projected 3.5% increase; however, it did exceed the 2001 level by 2.6%.

Overall net debt is moderate on a per capita basis at $2,394, but high as a percentage of market value at 7.3%. These figures are mitigated to some extent in that they include the city's overlapping debt, which is comprised substantially of school district debt where a large portion of debt service will be paid from the state's instructional facilities allotment program. The series 2003 bond issue represents refunding bonds only. Proceeds will be used to refund existing debt of the city for interest cost savings. With no remaining voted GO authorized debt, city management currently expects to go back to voters for authorization of about $115 million in November 2003.

Outlook

The stable outlook reflects the expectation that city management will take the necessary actions to keep its budget balanced and work to build reserves given slowing assessed value growth and reduced sales tax revenues. The inability to do this could result in rating action.

Economy

San Antonio is located in south central Texas, and according to the 2000 census, it is the eighth largest city in the U.S. and the third largest city in Texas. Though military and tourism have long been the driving forces in the city's economy, medical and bio-medical are now the leading force, contributing $8.1 billion to the area's overall economy. The city has worked hard to build this component of its economy as evidenced by the fact that the South Texas Medical Center is now the leading employer with almost 26,000 positions. In all, the medical and bio-medical fields account for about 14% of the city's jobs. Overall, the city added a net total of about 10,000 jobs during the past year despite the slowing economy and cutbacks of some employers. Wealth levels remain below the national average; however, the median household effective buying income continues to trend upward with an increase of 6.3% in 2001 to 90.9% of the national level.

Total AV growth slowed in fiscal 2003 due to the general downturn in the economy. Growth of 3.1% in fiscal 2003 brought total AV to $40.8 million. This growth level is down compared to the average of 7% for the previous five-year period. The largest taxpayer is H.E. Butt Grocery Co., which represents only 1.2% of the total AV. The city's tax base is well diversified with the 10 leading taxpayers representing only 5.3% of the total AV. Tourism and convention traffic continue to be strong, as the city experienced an increase in hotel room nights for 2002 following a slight decline after the events of Sept. 11, 2001.

The city's proximity to Mexico promotes strong international trade and tourism, which creates further economic diversity. Air cargo has shown a strong growth trend increasing to record levels with continued strong growth projected. The city's international airport is currently undergoing expansion and improvements valued at $425 million.

Government, specifically the military, continues to be a large component of the economy with five military bases located in the city. Though Kelly AFB officially closed as a military installation in July 2001, the city has worked on a privatization effort to prevent job losses. To date, 7,000 military jobs have been retained and 5,400 commercial jobs created. The city's goal is to create a total of 21,000 jobs there by 2006, which would more than offset the estimated 12,000 jobs lost due to the closing. Boeing and Lockheed Martin are the leading employers at the Kelly installation and are expected to spur further privatization and enable the retention of several aircraft repair operations.

Similarly, the city is working with Brooks AFB in an effort to retain jobs there should future base closures be considered nationally. In July 2002, Brooks transferred ownership of all of its land to the city. Part of the city's involvement there includes the development of Brooks Technology & Business Park where the Air Force will be the major tenant of the city's with development of additional health services and biotechnology planned. Brooks City-Base is the only project of its kind in the U.S.

San Antonio won its bid for a new Toyota truck plant, which will be built on land that is south of the downtown area. Construction is scheduled to begin in the summer of 2003 with completion expected in 2006. The city's economy will benefit from various aspects of the project including a total of about $800 million in capital investment from Toyota. About 2,100 construction jobs are expected to be created. Upon completion, the plant will produce Toyota's Tundra truck at a rate of 150,000 per year at full operation. The plant is expected to create about 2,000 manufacturing jobs, with an additional 5,300 spin-off jobs in the area.

The city will issue debt through its Starbright Industrial Development Corp. for the acquisition of the land and other costs associated with the project. This debt will be composed of contract revenue bonds whose debt service will be paid solely from revenues the city pledges from funds it receives from city public service (CPS). A three-year limited purpose district will be created for the site with the expectation that the city will annex this land at the end of that period. Also planned as part of the city's Southside Initiative is a new site of Texas A&M University.

The city council has also voted to build a PGA Village in the northwest part of the city. This facility will be a state-of-the-art golf resort with only one other comparable resort of its kind in the U.S. Construction is scheduled to begin in 2003 with a planned 2005 opening.

Finances

The city significantly reduced its general fund balance during fiscal 2002. The reduction is due to a combination of only slightly increased revenues due to slowed AV growth and sales tax receipts coupled with significantly increased expenditures. Of the $33.9 million in increased general fund expenditures for fiscal 2002 versus fiscal 2001, $20.7 million was for increased police and fire costs. This results in an unaudited, unreserved general fund balance of $53.5 million ending 2002. This represents 9.1% of expenditures as compared to 15.7% in fiscal 2001. The city still exceeded its goal of maintaining at least 5% of expenditures in the fund, and additional flexibility is provided as $23 million of reserves within the general fund are dedicated only for potential revenue declines. This reserve was not reduced during 2002.

In preparing its fiscal 2003 budget, the city had a deficit of $42.4 million. In order to balance the budget, various adjustments were made to both expected revenues and expenditures. The bulk of adjustments were in across-the-board departmental cuts that are mostly administrative. City management currently expects a minimal impact on services provided and, with the adjustments, expects the ending general fund balance for fiscal 2003 to be maintained at a similar level as 2002. Public safety remains San Antonio's top priority and is the largest expenditure.

The general fund continues to rely on CPS revenues, which account for nearly 30% of total general fund revenues. While CPS has moved into a deregulated environment, concerns are limited or mitigated by its favorable, competitive position. The city's sales tax revenue for fiscal 2002 was below the projected 3.5% increase; however, it did exceed the 2001 level by 2.6%. The projected 2003 increase of 4.3% used in the budget process has been revised downward. The city now expects 2003 sales tax revenue to be flat with 2002 levels; however, any shortfall is expected to be made up with increased CPS revenues. City management expects these revenues to be higher than projected due the colder than normal winter and increased fuel costs.

Debt

The city's overall net debt is moderate on a per capita basis at $2,394, but high as a percentage of market value at 7.3%. This is somewhat mitigated in that the total debt amount includes the city's overlapping debt which is comprised substantially of school district debt. A large portion of this debt service will be paid from the state's instructional facilities allotment program. The city's capital improvement financing plan is manageable; the tax rate for fiscal 2003 remains unchanged at $5.785 per $1,000 of AV, which is low on a comparative basis to the tax rate of other Texas cities.

The city has no remaining GO voted authorization. City management expects to go to voters in November 2003 for additional authorization of about $115 million. A bond referendum for approximately $140 million in May 1999 passed with more than 70% approval. The series 2003 bonds are refunding bonds being issued to provide interest cost savings to the city upon refunding existing debt.

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